

Special Report

WORLD CIGARETTE SITUATION

NORTH AMERICA

Mexico- Cigarette production and consumption in 2001 are forecast to remain unchanged from the previous year's estimate due to increases in retail prices and consumer health concerns. Cigarette imports continue to be negligible in 2000 and are expected to remain unchanged for 2001. Consumers have shifted from higher priced cigarettes made of high quality flue-cured, burley, and oriental tobaccos to mid and low-priced cigarettes made of lower quality tobaccos. As a result of continued stringent customs controls, and lower prices for domestic cigarettes, imports of contraband cigarettes have decreased. Mexican cigarette exports are forecast to remain unchanged in 2001, and reportedly exports of both low priced domestic brands and non-branded cigarettes go mostly to Eastern European, Asian, and African countries.

United States- Smokers consumed an estimated 423.6 billion pieces in 2000 compared to 434.5 billion pieces in 1999. Price increases, higher taxes, and expanding regulations are the main factors in declining cigarette use. Exports dropped to 148.3 billion pieces in 2000, 3.1 billion pieces fewer than the previous year and valued at \$3.3 billion, down marginally in quantity and value from 1999. Cigarette sales overseas continue to decline because of increased cigarette production by U.S. manufacturers overseas and a growing health awareness that has dampened cigarette consumption in many markets.

Cigarette output in 2000 decline by 6 percent in 2000 or reached 597.7 billion pieces. The U.S. cigarette industry has stabilized after higher prices and tax increases caused lower production during the past few years. Expectations for 2001, based on limited data are for a 3-percent decline in cigarette output to about 580 billion pieces.

SOUTH AMERICA

Brazil- Cigarette production for 2001 is estimated at 110.4 billion pieces, as compared to 104.9 billion pieces in 2000. Cigarette consumption for 2001 is forecast at 109.4 billion pieces, a 5-percent increase compared to the previous year. Contraband cigarettes, especially from Paraguay, which are marketed locally at significantly lower prices, represent a major concern and source of competition for Brazilian cigarette companies local sales. According to the tobacco industry, approximately 37 percent of the actual domestic consumption for 2000 results from contraband cigarettes. Total cigarette exports for 2000 were estimated at 700 million pieces, down by 5.6 billion pieces from previous year. Total cigarette exports for 2001 are projected at one billion pieces. The sharp decrease in cigarette exports is a result of the 150 percent tax imposed on exports to inhibit cigarettes exported to Paraguay and Uruguay from being re-exported to Brazil for tax-free resale.

EUROPEAN UNION

The United Kingdom- The UK is expected to produce 150 billion pieces in 2001, unchanged from a year ago. Domestic consumption is down due to high tax policies and anti-smoking campaigns. However, the United Kingdom still remains a strong base for exporting cigarettes. Cigarette sales abroad are expected to rebound because of the depreciation of the British Pound to the U.S. dollar and economic recovery in Asia.

Netherlands- The Dutch cigarette industry is the largest in Europe. Total cigarette production in 2001 is projected to increase by 2.5 percent or total 123 billion pieces from the previous year. Domestic consumption is expected to remain constant in 2001. It is expected that over the long term, Dutch consumption of cigarettes will show a decrease due to a number of factors such as price increases through taxation, growing health concerns and limitations on advertising. Exports are expected to reach 106 billion pieces in 2001, unchanged from 2000. Of the total cigarette production, more than 97 percent was exported to countries in the European Union, of which Italy and France are the most important markets.

Spain- Cigarette production is projected to decline slightly to 70 billion pieces in 2001 while cigarette imports are forecast to rise due to a merger between two local French and Spanish companies forming Altadis. Altadis is planning to restructure and streamline operating cost operation resulting in the closing of several plants in Spain.

In terms of trade, cigarette imports are projected to rise by 3 percent because of decrease tariffs for cigarettes imported to Spain from outside the European Union. Sources report that cigarette exports are expected to grow because of Altadis presence in many countries with growth potential such as in Poland and Asia. Cigarette exports since 1999 have grown by 22 percent.

EASTERN EUROPE

Bulgaria- Cigarettes traditionally have been a top export earner for Bulgaria. Cigarette exports since 1999 have declined by nearly 3 percent because of prohibitively high custom duties in major markets such as Russia, FSU, and Romania. Bulgartabac has formed joint ventures in these markets to avoid high custom duties. Thus, the export market for cigarettes has dwindled. On the domestic side, cigarette demand is reported constant at 19 billion pieces since 1999. Cigarette production is expected to total 25.6 billion pieces in 2001, down 4 percent because of declines in the export market.

Turkey- Cigarette production is estimated to total 131 billion pieces in 2001, up 2.5 percent from a year ago. Domestic consumption in 2001 is expected to reach 116 billion, up slightly from the previous year. Cigarette exports are expected to increase by 18 percent, as a result of increased demand in the Gulf States and the neighboring Middle

Eastern countries. Fierce competition is reportedly taking place to meet domestic and export demand amongst Phillip Morris, Japan Tobacco International, BAT, and TEKEL.

A new law was prepared in accordance with Turkey's IMF and IBRD commitments. It calls for TEKEL's cigarette manufacturing and leaf tobacco buying sections to be separated.

Russia- Production of cigarettes and papirosas are expected to reach 315 billion pieces in 2001, up slightly from a year ago. Cigarette and papirosas production in 2000 increased 16 percent from 1999. Cigarette supplies exceeded consumption in 2000. Cigarette consumption is projected to remain at a steady level of 301 billion pieces in 2001. As a result of overproduction, cigarette imports are estimated down by 23 percent in 2001. Cigarette sales to Kazakhstan, Germany, Mongolia, Central Asia, and CIS countries are expected to increase in 2001.

ASIA

China- The quality of domestic cigarettes is rising quickly as Chinese companies upgrade their processing. The quality of domestic cigarettes is rising quickly as Chinese companies upgrade their processing. The State Tobacco Monopoly Administration (STMA) is now pursuing plans to consolidate production by closing small and unprofitable cigarette manufacturers and redistributing their cigarette production quotas to larger companies.

Manufacturers are reportedly unable to keep up with demand for high quality cigarettes. Sources reported that lower and middle quality cigarettes are no longer popular. As consumers income rise, they are demanding a higher quality cigarette. Cigarette production in China is forecast to remain constant at 1.6 7 trillion pieces in 2001.

Hong Kong- Cigarette production in 2000 jumped 49 percent, reaching nearly 10 billion sticks because of increased production by Nanyang Brothers' new plant. For 2001, cigarette production is estimated to reach almost 11 billion pieces. Hong Kong is a major trans-shipment location for cigarettes in Asia. Cigarette imports amounted to 23 billion pieces with a total value of \$508 million in 2000. Cigarette imports in 2001 are expected to increase marginally to 24 billion pieces. The United States is the largest cigarette supplier in terms of value, but third in terms of volume. Cigarette exports are estimated at 29 billion pieces in 2001 compared to 28 billion pieces in 2000 because of increased cigarette production. China, the Philippines and Vietnam were the largest re-export markets.

Korea- Cigarette production is forecast to decline slightly in response to operational changes being implemented by KTGC in preparation for privatization and to rising imports of foreign brand cigarettes. Overall cigarette consumption is forecast to decline somewhat due to retail price increases brought with new cigarette taxes and charges, and the escalating anti-smoking campaign. Cigarette imports in 2001 are expected to exceed 2000

levels as intensive marketing campaigns appear to be expanding consumer demand among the younger population for lighter and milder tasting cigarettes.

Taiwan- The Taiwan Tobacco and Wine Bureau (TTWB) continues to lose market share to foreign brands. The customer base for TTWB has eroded. There are fewer older smokers who prefer the traditional Taiwan brands and more younger smokers that prefer Western and Japanese cigarettes. It is estimated that cigarette imports in 2001 will reach 20 billion pieces as compared to 19 billion pieces in 2000. TTWB market share is estimated to drop to 50 percent of the market in 2001 as compared to 52 percent in 2000. As a result of lost market share, domestic cigarette production is expected to reach 20 billion pieces, down 3 percent from 2000. Despite heavy anti-smoking campaigns, cigarette consumption is forecast to rise marginally.

Thailand- Cigarette production in 2001 is expected to decline by 6 percent to 30.8 billion pieces. The 6-percent decline in cigarette production is due to higher retail prices for domestic cigarettes and the unfavorable economic situation. In addition, foreign brands are affecting Thailand Tobacco Monopoly's (TTM) cigarette sales. Since the ASEAN's Free Trade Area was implemented in 1999, cigarette imports to Thailand increased by 23 percent in 2000 and are expected to further grow by 6 percent in 2001. Almost 90 percent of total imports were shipped from four ASEAN countries, Indonesia, Malaysia, Philippines, and Singapore, which are the production base for international brand manufacturers. Imports from these ASEAN countries pay lower duties than imports from outside the ASEAN region.

AFRICA AND THE MIDDLE EAST

Pakistan- The government of Pakistan has launched a radio and television campaign to discourage smoking. However, cigarette consumption is forecast to increase to 53 billion pieces in 2001, up 2 percent from a year ago. Pakistani cigarette companies announced a 50-percent price reduction in medium priced brands. Cigarette production is projected to increase marginally to 49 billion pieces in 2001 as compared to a year ago.

South Africa- Cigarette production and use is slowing due to increased taxes and strict labeling requirements. Cigarette production is expected to increase slightly to 27.3 billion pieces in 2001 as compared to 27.2 billion pieces previous year. Stricter anti-tobacco legislation was passed last year which limit advertising and restrict smoking areas. The tar yield of cigarettes must not be greater than 15 mg per cigarette and the nicotine yield not greater than 1.5 mg by December 2001. Sales of U.S. cigarettes in the market are declining as more U.S. cigarettes are produced locally, opening the door for expanded U.S. leaf tobacco exports.